

FY 2019 Nonprofit Mail Cost Approximations

I. PREFACE

A. Purpose and Content

USPS-FY19-27 approximates the unit costs, total costs and contribution associated with Nonprofit Marketing Mail by using the volumes and revenues associated with Nonprofit Marketing Mail in conjunction with estimated unit costs by product, shape and rate category for Marketing Mail. Because the Postal Service's data systems do not collect cost information separately for Nonprofit and Commercial mail, the estimated costs reported for Marketing Mail represent costs for the combined categories. Although it may be reasonable to assume, for instance, that an Automation 5-Digit Nonprofit letter and an Automation 5-Digit Commercial letter would have similar costs, there may be cost-causing characteristics which are not explicitly incorporated into the cost models and which may vary for Nonprofit relative to those for Commercial mail. The Postal Service does not represent that USPS-FY19-27 necessarily reflects the actual costs of Nonprofit mail, but rather, it approximates the costs of Nonprofit mail assuming that the costs of Nonprofit mail are the same as the costs of Marketing Mail, at the disaggregated level.

B. Predecessor Documents

USPS-FY18-27

C. Methodology and Changes from USPS-FY18-27 Methodology

There are no changes in the basic methodology used in this analysis compared with that of USPS-FY18-27. The billing determinants for Nonprofit Marketing Mail from USPS-FY19-4 for the full fiscal year 2019 were used as the source of the file display and the revenue and volume data. The estimated unit costs by product, shape, and rate category from USPS-FY19-30, FY19 NSA Unit Cost Detail Data Calculations.xlsx, were used as the source of most of the estimated unit costs, with the detailed estimated mail processing unit costs for Marketing Mail Parcels obtained from USPS-FY19-12. The "Other Costs" were obtained by volume-weighting the unit costs already determined, summing and subtracting from the "CRASummary" total unit cost. As necessary, those unit costs were adjusted to accommodate the destination entry cost avoidances by shape from USPS-FY19-13. As the average costs for the categories of Marketing Mail do not represent the transportation and nontransportation costs of "nondropship" mail, but rather, the weighted average of dropship and nondropship mail, the unit costs for nondropship mail are increased whereas the costs for dropshipped mail are decreased relative to the national average costs. The dropship adjustments for letters and flats include both the transportation and nontransportation cost avoidances, but for Marketing Mail Parcels, the nontransportation cost avoidances for various levels of destination entry are already included in the unit costs provided by USPS-FY19-12.

Thus, the adjustments to Marketing Mail Parcels in tab “Dropship Adjustment” only include the transportation dropship cost avoidances. The barcode cost is obtained from USPS-FY19-12, the Marketing Mail Parcel Mail Processing Cost model.

For Marketing Mail Parcels in the category formerly known as ECR, the Mail Processing costs were derived from USPS-FY19-18, FY19 ECR Unit Costs.xlsx, tab “Table 1”. Window Costs, Vehicle Service Driver Costs, and Transportation Costs were obtained from FY 18 NSA Unit Cost Detail Data Calculation.xlsx, tab “CRASummary” multiplied by the appropriate piggyback in tab “Piggys” and divided by the appropriate RPW volume. Costs are developed separately for Carrier Route Basic, and for High Density and Saturation, but not all of the costs for High Density and Saturation could be separated out for these categories. The Delivery costs for Carrier Route Basic, High Density and Saturation were provided separately and were from tab “Delivery” in the same workbook. The “Other Costs” were obtained by volume-weighting the unit costs already determined, summing and subtracting from the CRASummary total unit costs for Carrier Route Basic, and High Density and Saturation Flats and Parcels. Total Costs for each were the sums of the unit costs, including the “Other Costs”.

The unit costs were applied to the appropriate Nonprofit volumes to approximate the total costs. The total costs, revenues and contribution by product are summarized.

A change was first made in FY 2017 reflects the need to attempt to augment the analysis to take some account of the expanded definition of attributable costs adopted in Commission Order Nos. 3506 and 3641. In years before FY 2017, all of the above analysis was done in terms of volume variable costs. That continued through 2018 and into this year, and the details of the calculations of the volume variable cost approximations are unchanged. Nonprofit incremental costs are estimated using the method applied to NSA products, as described in the Appendix to the Preface to USPS-FY17-43 and subsequently approved by the Commission in Order No. 4719 (July 19, 2018). This method applies the Nonprofit share of the volume variable costs of individual Marketing Mail products as the approximate cost driver for the corresponding subset of Nonprofit Mail. These inframarginal approximations are then added to the calculated volume variable costs to estimate attributable costs by product for Nonprofit mail. The net contribution approximations shown on the Summary tab are thus expressed in terms of attributable costs, rather than in terms of volume variable costs (as effectively was the case in years prior to FY 2017).

D. Input/Output

The Nonprofit Marketing Mail cost approximations obtain information from:

<u>Input Source</u>	<u>Input Description</u>
USPS-FY19-2	Marketing Mail Parcels costs by cost segment
USPS-FY19-4	Marketing Mail billing determinants
USPS-FY19-12	Marketing Mail Parcel Mail processing unit cost estimates and unit cost avoidance by barcoded parcels
USPS-FY19-13	Marketing Mail destination entry cost avoidance estimates
USPS-FY19-18	FY 2019 ECR mail processing unit costs
USPS-FY19-19	Unit cost of Detached Address Labels
USPS-FY19-30	FY 2019 detailed unit costs
USPS-FY19-42	FY 2019 RPW
USPS-FY19-43	Inframarginal cost approximations

The approximated Nonprofit Marketing Mail costs and contribution figures are not used in any other folder in this docket.

II. ORGANIZATION

In addition to this Word preface, USPS-FY19-27 consists of one Excel file, MktgMailNonprofit2019.xlsx.